# Dividend Growth

## Portfolio Update: Third Quarter 2024

For the quarter ending September 30, 2024, the Dividend Growth Strategy (the "Strategy") increased +7.70% net of fees, compared to the +8.86% return for the Morningstar U.S. Dividend Growth Index (MSDGI) benchmark index and the broader market's +5.89% total return for the S&P 500 Index. Year-to-date the Strategy has returned +10.57% net of fees versus the +16.42% total return of the benchmark.

| Performance | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (4/1/2005) |
|---|---|---|---|---|---|---|---|
| **Dividend Growth** (net of IM fees) | +7.70% | +10.57% | +23.03% | +8.85% | +13.93% | +11.97% | +8.77% |
| **Dividend Growth** (net of IM & WM fees) | +7.45% | +9.80% | +21.88% | +7.79% | +12.82% | +10.87% | +7.70% |
| **Morningstar U.S. Dividend Growth Index** | +8.86% | +16.42% | +26.50% | +7.65% | +9.84% | +9.50% | +7.71% |
| **S&P 500 Index** | +5.89% | +22.08% | +36.35% | +11.91% | +15.98% | +13.38% | +10.66% |

*Inception date: April 1, 2005. Performance is presented net of RMB Asset Management's maximum management fee and transaction costs. Performance is annualized for periods greater than one year. Please see important disclosures at the end of this document. Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. All data is as of September 30, 2024.*

Domestic markets again posted solid results in the third quarter, pushing most mid- and large-cap indices further into all-time high territory. The S&P 500's +22.08% year-to-date return represents the strongest first three quarters the market has seen since the late 1990s. Amid overall market returns that looked quite similar to recent quarters, we did see a significant reversal of leadership. Large growth stocks went from being the best performing group in the first half of 2024 to the worst in the third quarter. There was also a reversal in leadership at the sector level as the Information Technology and Communication Services went from top performers to bottom performers during Q3. Continued solid overall performance combined with a shift in leadership away from the largest companies means that market performance must be broadening out, and indeed this was an important trend. Nearly 70% of S&P 500 companies outperformed the index this quarter, compared to around 25% in the first half of the year. The equal-weight version of the S&P 500 - a proxy for the average index stock - gained 9% in the quarter, outperforming the S&P 500, which is more influenced by the heavily weighted shares of mega caps such as NVIDIA Corp. (NVDA) and Apple Inc. (AAPL). Anticipation of Federal Reserve rate cuts pushed investors into shares of regional banks, industrial companies and other beneficiaries of a strong economy and lower rates, as opposed to the tech-focused stocks that have already seen massive gains this year.

While the Morningstar U.S. Dividend Growth index's relative lack of representation in Magnificent 7 stocks[1]helped it to outperform the broad market, it was our overweight in names like Microsoft Corp. (MSFT) and Intuit Inc. (INTU) and underweight in "old school" Tech winners like International Business Machines Corp.(IBM), and Oracle Corp. (ORCL) that caused the portfolio to trail its benchmark in the quarter. We remain confident in our Technology sector holdings which are diversified across the software, hardware, and services industries. A secondary factor in the underperformance was having no representation in the Utilities sector, which led all sectors with a +18.4% return during the quarter. Utilities stocks have been outperforming due to a combination of factors. Lower interest rates have made utility stocks, which often offer steady dividends, more attractive to income-seeking investors. Rates declined steadily throughout the quarter with the U.S. 10-year treasury yield dropping by around 75 basis points (bps) to 3.74% at quarter-end. Additionally, increased infrastructure spending has fueled optimism around utilities as they upgrade grids and expand renewable energy capabilities. Rising demand for electricity, driven by data centers and the growth of electric vehicles, has further boosted

[1] The "Magnificent 7" refers to the following stocks: Apple Inc. (AAPL), Microsoft Corp. (MSFT), Alphabet Inc. (GOOG), Amazon.com Inc. (AMZN), Tesla Inc. (TSLA), Meta Platforms Inc. (META), and NVIDIA Corp. (NVDA).

the sector's growth. While Utilities are within the Strategy's opportunity set, they tend to be less aggressive dividend growers, making them a lesser fit than other companies and sectors. Risks common to all utilities include the potential for adverse regulatory or legal decisions, significant changes in commodity prices such as electricity and natural gas, and a weak economy negatively impacting earnings. We will continue to consider potential holdings in this sector while keeping these risks in mind.

Macroeconomic events continued to play a role in market volatility. In early August, the combination of weaker U.S. employment data and a more hawkish Bank of Japan (BOJ) led to a rapid strengthening of the Japanese yen which in turn set off an unwinding of the yen "carry trade" where investors fund higher yielding investments with lower interest rate borrowings in Japan. Problems arose when the yen began to strengthen in earnest, effectively increasing the cost for borrowers to pay back Japanese loans. The result was a vicious feedback loop of global asset sales used to repay yen-based loans, further driving up the value of the yen. The MSCI EAFE international index dropped about 7% from its high in July, while the MSCI Japan was down nearly 9% and U.S. Large Cap Growth was down nearly 11%. The BOJ blinked by quickly communicating no more interest rate hikes while market volatility was elevated. Equity markets recovered almost immediately in response, applauding the latest example of a central bank reversing course in the face of market volatility and adversity.

As anticipated following a weak employment report in July, the Fed cut the benchmark policy rate 50bps from 5.25%-5.50% to 4.75%-5.00%, an important milestone for the markets this quarter after 14 months of holding rates at the peak. Recall that in response to the disruptions from the COVID-19 pandemic, the Fed dropped interest rates to zero. Beginning March 2022, the Fed began moving away from the COVID-era zero interest rate policy to fight the stubborn inflation that it had famously described as "transitory". Now, with the Fed's preferred measure of inflation (the Core PCE) up only 2.7% in August and the unemployment rate starting to tick up from lows of 3.4% in 2023 to 4.3% in July, the Fed has shifted its focus within its dual mandate from price stability to maximum employment. The strong September employment report, which arrived shortly after quarter-end, appeared to lend credence to the "soft landing" thesis.

It would be remiss not to mention the incredible political events of the quarter. Former U.S. President Donald Trump survived two assassination attempts, one by mere inches on a stage in Pennsylvania and the other not quite as close on a golf course in Florida. Meanwhile, President Joe Biden stepped out of the election ring following a tough outing in the first presidential debate. This cleared the way for his current Vice President Kamala Harris to take the Democratic nomination. At this juncture the race looks tight, with a few swing states likely to skew the outcome one way or another. While the visions of each candidate and their parties are quite different in detail, a continuation in excessive deficit spending appears to be one key area of common ground.

## Contributors and Detractors

Kenvue Inc. (KVUE) was the top positive contributor to performance this quarter, which was very welcomed after a challenging start as a standalone company following its split-off from parent Johnson & Johnson Corp. (JNJ) last year. Kenvue is a global consumer health company that has a strong portfolio of trusted brands like Tylenol, Motrin, Band-Aid, and Listerine. In May, the leadership team outlined the "Our Vue forward" strategy designed to position KVUE to be more efficient standalone and to drive $350 million of annual savings, part of which will be allocated to incremental brand investments. This quarter, only a few months into the initiative, Kenvue delivered strong gross margin execution, which it attributed largely to the incremental brand investments. These early signs of success, as well as a market backdrop favoring defensive staples companies, drove the strong performance in KVUE shares.

# Dividend Growth

| Dividend Growth<br>THIRD QUARTER 2024 CONTRIBUTION REPORT<br>*Ranked by Basis Point Contribution* | | |
|---|---|---|
| | **Basis Point Contribution** | **Average Weight** |
| **Top Contributors** | | |
| Kenvue Inc.. | +89 | 3.03% |
| Lowe's Companies Inc. | +83 | 3.83% |
| American Tower Corp. | +76 | 4.19% |
| UnitedHealth Group Inc. | +71 | 5.06% |
| Accenture Plc | +61 | 3.71% |
| **Bottom Detractors** | | |
| Microsoft Corp. | -32 | 8.32% |
| Intuit Inc. | -21 | 3.87% |
| Vail Resorts Inc. | -9 | 2.58% |
| EOG Resources Inc. | -4 | 3.14% |

*Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The above does not represent all holdings in the Strategy. Holdings listed might not have been held for the full period. To obtain a copy of RMB Asset Management's calculation methodology and a list of all holdings with contribution analysis, please contact your service team. The data provided is supplemental. Please see important disclosures at the end of this document.*

Lowe's Companies Inc. (LOW) was a positive contributor during the third quarter of this year as investors welcomed the first rate cut from the FED which should help turn around a beleaguered housing market. Lowe's has been a beneficiary of a strong housing market coming out of COVID with a big emphasis on improving historical operations to better compete with industry leader Home Depot. The company has made progress on better serving the Pro customer through improved service, better inventory management, and technology upgrades. This has led to improving operating margin and higher ROIs. However, the past several quarters same store sales have been trending negative as high interest rates have dampened demand for both new housing construction and remodel activity. Core to our thesis, we believe LOW is holding or gaining market share (Pro same store sales was positive this quarter) and continues to have room for further margin expansion.

Microsoft Corp. (MSFT) was the Strategy's largest detractor during the quarter. Its business has become increasingly driven by Azure, its comprehensive set of cloud services and artificial intelligence (AI) offerings. The fiscal fourth quarter report in late July received a mixed reaction and came on the heels of a sharp market rotation away from large growth stocks. Microsoft reported Azure growth of 30% which was at the low end of its own guidance and investor expectations. It also continued to spend aggressively on the semiconductors, servers, and networking equipment needed to support its Azure offering. Heightened investor scrutiny on the return on investment earned by such capital spending was one of the big themes of this earnings season. Going forward, we remain optimistic about MSFT due to its multiple ways to earn that return including its AI services and various Copilot AI software offerings. Encouragingly, management did forecast Azure to re-accelerate starting in 2025 as additional computing capacity comes online.

Intuit Inc. (INTU) was also a portfolio detractor during the quarter. The company's platform helps consumers and small and mid-market businesses prosper by delivering financial management, compliance, and marketing products and services. Most of the news this quarter was in the update to its long-term growth expectations given at its Investor Day in August. Its key Small Business segment (60% of revenues) remains healthy as reflected in long-term growth expectations of 15-20% being maintained. Here, Intuit is making a formal push upmarket with the Intuit Enterprise Suite (IES), meant to address a larger portion of the $89B mid-market total addressable market. On the consumer side of its business which includes TurboTax tax preparation products for individuals, it is somewhat self-disrupting by expanding its assisted tax marketing channels. This is meant to reposition INTU for an even bigger consumer tax opportunity, but is part of the reason it lowered long-term Consumer segment growth expectations to 6-10% from prior 8-12%. Finally, long-term growth expectations for its Credit Karma segment were lowered to 10-15% from prior 20-25% as that segment gradually emerges from a cyclical slowdown of the past 1-2 years. These reductions were reasonably well-received by investors as an acknowledgement of the current demand environment for each segment. We remain positive on INTU's potential to expand its addressable market across both small-to-medium sized business (SMB) accounting and services as well as tax by moving up into the mid-market while continuing to serve its traditional stronghold of the lower end.

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## Portfolio Activity

The Strategy purchased one new position at the end of the quarter, Target Corp. (TGT), and sold one position, Diageo PLC (DEO). Target is one of the largest retailers in the U.S., operating over 1,900 stores across the country. Target sells a combination of "frequency" products like food & beverage, beauty and household essentials, as well as more "discretionary" categories like apparel, home furnishings and décor. For this reason, Target blurs the line between consumer staples and consumer discretionary. The company was a beneficiary of consumer spending on both staples and discretionary items during the pandemic. However, it struggled with too much of the wrong inventory as consumers shifted focus to spending on experiences, as well as increased "shrink" (theft, organized retail crime) and other missteps. With demand for higher margin discretionary items showing signs of life and shrink under control, we think the market will start to better appreciate the significant operational transformation the company has undertaken to modernize its stores to more efficiently serve today's omnichannel consumer.

Diageo is a global beverage alcohol company with recognizable brands like Johnnie Walker, Guinness, and Ketel One among its portfolio of over 200 brands. Our investment in Diageo was based on its strong track record of above industry-average sales growth and its ability to grow earnings well above peers. After an unfortunate and unexpected change in leadership (prior CEO Ivan Menezes passed away) and subsequent slowdown in organic growth, we reduced the position size to de-risk the impact on the portfolio, but believed the company could work through these issues. Unfortunately, excess inventory held by distributors and retailers, combined with lack of newness and missed industry trends has caused Diageo to cut guidance this year. The company has been slow to adapt to changing market conditions and our confidence in the new CEO has been waning. We thus sold the remainder of the position during the quarter.

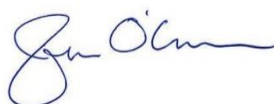
## Outlook

The election and interest rates have been front and center on investors' minds for most of this year. It is notable that control of the White House, the Senate, and the House of Representatives are all up in the air. This can lead to a lot of uncertainty and volatility that impacts not only the markets, but also consumer and business behaviors. There have been signs that people are taking a "wait and see" attitude towards big projects and purchases, and we wouldn't be surprised to hear more of that on Q3 earnings conference calls. When it comes to interest rates, with a 50bps Fed Funds rate cut now behind us and a strong September jobs report, the market is now anticipating a more modest path for future rate cuts, consistent with the "soft landing" scenario. Absent an exogenous shock, our best guess is that the Fed progresses towards the "neutral" rate where its policies are neither stimulative nor restrictive. The most recent Federal Reserve Summary of Economic Projections implies that the federal funds rate will decline from the current 4.75-5.00% down to somewhere around 3.25–3.50% by the end of 2025. There is no doubt that this is an uncommon environment for rate cuts. Typically, the Fed cuts rates in response to weak economic conditions or to react to a shock. The normalization of rates with the backdrop of a soft landing would be unusual. If this is indeed the path, we believe it should lead to a continuation of the improved breadth experienced this quarter (a market where the other 493 stocks matter, not just the Magnificent 7). Nearer term, we are watching to see if the most interest rate sensitive parts of the economy like housing, commercial real estate and capital goods, will hold up to the weight of still relatively high interest rates, which have long and lagged effects on the economy.

We focus on identifying companies that we believe can beat market expectations for growth and returns on capital. Economic cycles, interest rates, and investor preferences all influence short-term absolute and relative performance. Over the long-term, we believe that investing in high quality companies that create value for shareholders can result in long-term shareholder returns that beat the overall market.

Thank you for your confidence in the team and the Strategy. If you have any questions, please do not hesitate to contact us.

Sincerely,



Tom Fanter
Portfolio Manager

John O'Connor, CFA
Portfolio Manager

**TOP TEN HOLDINGS AS OF 9/30/24**

| Company | % of Assets |
|---|---|
| Microsoft Corp. | 8.08% |
| UnitedHealth Group Inc. | 5.05% |
| American Tower Corp. | 4.21% |
| Lowe's Companies Inc. | 4.14% |
| Stryker Corp. | 4.12% |
| Keurig Dr Pepper Inc. | 4.11% |
| CME Group Inc. | 4.01% |
| Union Pacific Corp. | 3.98% |
| Accenture Plc | 3.93% |
| Zoetis Inc. | 3.91% |

*Holdings are subject to change. Past performance is not indicative of future results, and there is risk of loss of all or part of your investment. The data provided is supplemental. Please see disclosures at the end of this document.*

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*Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The opinions and analyses expressed in this newsletter are based on Curi RMB Capital, LLC's ("Curi RMB Capital") research and professional experience are expressed as of the date of our mailing of this newsletter. Certain information expressed represents an assessment at a specific point in time and is not intended to be a forecast or guarantee of future results, nor is it intended to speak to any future time periods. Curi RMB Capital makes no warranty or representation, express or implied, nor does Curi RMB Capital accept any liability, with respect to the information and data set forth herein, and Curi RMB Capital specifically disclaims any duty to update any of the information and data contained in this newsletter. The information and data in this newsletter does not constitute legal, tax, accounting, investment or other professional advice. The information provided in this letter should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in the Portfolio at the time you receive this letter or that securities sold have not been repurchased. The securities discussed do not represent the entire Portfolio and, in the aggregate, may represent only a small percentage of their holdings. It should not be assumed that any securities transaction or holding discussed was or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. A complete list of security recommendations made during the past 12 months is available upon request. An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not account for fees, taxes or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by your account. The Morningstar U.S. Dividend Growth Index is designed to provide exposure to securities in the Morningstar U.S. Markets Index with a history of uninterrupted dividend growth and the capacity to sustain that growth. The S&P 500 includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 focuses on the large-cap segment of the market and covers approximately 75% of U.S. equities. High-quality stocks are those that we believe offer greater reliability and less risk. The quality assessment is made based on a combination of soft (e.g., management credibility) and hard (e.g., balance sheet stability) criteria. RMB Asset Management is a division of Curi RMB Capital.*

# Dividend Growth

**RMB Asset Management**

Dividend Growth Strategy // GIPS Report

**Organization** | Curi RMB Capital, LLC ("Curi RMB Capital") is an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 and established in 2005. The GIPS firm is defined as RMB Asset Management ("RMB AM"), a division of Curi RMB Capital. Previously, the firm was defined as RMB Capital and was redefined on January 1, 2016 to only include the asset management business due to the difference in how its investment strategies and services are offered. RMB AM claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. RMB AM has been independently verified for the periods April 1, 2005 through December 31, 2022. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

**Description** | The Dividend Growth Strategy reflects the performance of fully discretionary equity accounts, which have an investment objective of long-term growth using a portfolio of primarily large-cap stocks and, for comparison purposes, is measured against the S&P 500 index. Effective 1/1/2023, the Morningstar U.S. Dividend Growth Index was added as secondary benchmark for the strategy retroactively in order to provide an income-oriented benchmark alongside the primary benchmark. The inception date of the Dividend Growth Composite is April 1, 2005 and the Composite was created on April 1, 2005. Valuations and returns are computed and stated in U.S. Dollars.

**ANNUAL PERFORMANCE RELATIVE TO STATED BENCHMARK**

| Year End | Total Firm Assets as of 12/31 ($M) | Composite Assets | | Annual Performance Results | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | USD ($M) | # of Accounts Managed | Composite Gross-of-Fees (%) | Composite Net-of-Fees (%) | MS Div Growth (%) | S&P 500 (%) | Composite 3-YR ST DEV (%) | MS Div Growth 3-YR ST DEV (%) | S&P 500 3-YR ST DEV (%) | Composite Dispersion (%) |
| 2023 | 6,235.5 | 265.7 | 225 | 18.2 | 17.63 | 7.58 | 26.29 | 15.78 | 15.51 | 17.29 | 0.33 |
| 2022 | 5,228.7 | 242.7 | 208 | -12.27 | -12.72 | -9.98 | -18.11 | 20.36 | 19.54 | 20.87 | 0.35 |
| 2021 | 6,277.6 | 307.8 | 221 | 31.58 | 30.97 | 23.89 | 28.71 | 17.69 | 16.96 | 17.17 | 0.27 |
| 2020 | 5240.6 | 168.9 | 154 | 16.14 | 15.58 | 6.48 | 18.40 | 18.58 | 17.76 | 18.53 | 0.92 |
| 2019 | 4,947.9 | 243.7 | 460 | 37.62 | 37.00 | 26.74 | 31.49 | 11.39 | 11.28 | 11.93 | 0.45 |
| 2018 | 4,196.9 | 204.2 | 474 | -2.11 | -2.61 | -4.56 | -4.38 | 10.89 | 10.2 | 10.80 | 0.36 |
| 2017 | 3,610.6 | 219.4 | 507 | 19.21 | 18.64 | 19.90 | 21.83 | 10.11 | 9.42 | 9.92 | 0.40 |
| 2016 | 3,047.5 | 204.6 | 516 | 14.77 | 14.23 | 12.21 | 11.96 | 10.95 | 10.03 | 10.59 | 0.41 |
| 2015 | 3,706.0 | 215.8 | 571 | -6.54 | -7.01 | -3.20 | 1.38 | 10.47 | 10.49 | 10.47 | 0.40 |
| 2014 | 3,312.9 | 260.4 | 640 | 12.48 | 11.95 | 10.80 | 13.69 | 9.68 | 8.41 | 8.97 | 0.38 |

***Fees*** | *Effective January 1, 2011, Curi RMB Capital's asset management fee schedule for this Composite is as follows: 0.50% on the first $3.0 million, 0.475% on the next $2.0 million, 0.450% on the next $5.0 million, 0.425% on the next $15.0 million, and 0.400% over $25.0 million. Net returns are computed by subtracting the highest applicable fee (0.50% on an annual basis) on a quarterly basis from the gross composite quarterly return, and the resulting quarterly net figures are compounded to calculate the annual net return. Actual asset management fees charged by Curi RMB Capital may vary. Composite performance is presented on a gross-of-fees and net-of-fees basis and includes the reinvestment of all income. Gross-of-fees returns means it is net of transaction costs but gross of asset management fees and custodian fees. The payment of actual fees and expenses would reduce gross returns. The compound effect of such fees and expenses should be considered when reviewing gross returns. The composite includes accounts that pay asset-based pricing for trading expenses. The maximum fee is 15 basis points per year; however, many accounts pay lower amounts due to household break-point relief. Returns for those accounts prior to 3/1/19 do not reflect the deduction of asset-based pricing and are therefore gross of trading expenses. These accounts represent approximately 81% of composite assets. In addition to an asset management fee, some accounts pay a wealth management fee based on the percentage of assets under management to Curi RMB Capital. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year. Risk measures presented are calculated using gross-of-fees performance. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.*

***Minimum Value Threshold*** | *The account minimum in the Dividend Growth composite is currently $500 thousand. Prior to July 2020, the composite did not have a minimum.*

***Comparison with Market Indices*** | *Curi RMB Capital compares its Composite returns to a variety of market indices such as the S&P 500. The index represents unmanaged portfolios whose characteristics differ from the Composite portfolios; however, it tends to represent the investment environment existing during the time period shown. The S&P 500 Index is widely regarded as the best single gauge of the U.S. equity market. It includes 500 leading companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market and covers approximately 75% of the U.S. The index includes dividends reinvested. An investment cannot be made directly in an index. The returns of the index do not include any transaction costs, management fees, or other costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by your account in the Composite. Benchmark returns presented are not covered by the report of independent verifiers.*

***Other*** | *Past performance is no guarantee of future performance. Historical rates of return may not be indicative of future rates of return. Individual client performance returns may be different than the composite returns listed. Total Firm Assets as of 12/31 for the years 2011 and 2012 have been revised to exclude assets from personal trading accounts that were included in previously reported figures. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. A list of Composite Descriptions and a list of Broad Distribution Pooled Funds are available upon request.*